

# **State of Alaska FY2010 Governor's Operating Budget**

## **Department of Revenue Alaska Retirement Management Board Component Budget Summary**

## Component: Alaska Retirement Management Board

### Contribution to Department's Mission

The mission of the Alaska Retirement Management Board is to manage state pension funds.

### Core Services

- Invest the funds of the state pension plans: Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System, Alaska National Guard and Alaska Naval Militia Retirement System, Health Reimbursement Arrangement Plan, Retiree Major Medical Plan, and Health Care Trust Accounts.
- Select and monitor appropriate investment options for Supplemental Benefits System (SBS), Deferred Compensation, and Defined Contribution Plan.
- Report to the governor, legislature, individual employers and other stakeholders the financial condition of the systems with regard to: valuation of trust fund assets and liabilities; current investment policies adopted by the board; a summary of assets held in trust listed by the categories of investment; the income and expenditures for the previous fiscal year; and 1-year, 3-year, 5-year and 10-year investment performance for each of the funds entrusted to the board.

End Result	Strategies to Achieve End Result
<p><b>A: Improve the risk adjusted return of funds under the stewardship of the ARMB by continually improving investment returns.</b></p> <p><u>Target #1:</u> Exceed 1-year, 3-year and 5-year target returns.</p> <p><u>Status #1:</u> FY2008 target returns were exceeded in 9 of the 12 return analyses.</p>	<p><b>A1: Recognize possible improvements to asset allocation decisions through evaluation of greater diversification by expanding the number of asset classes. (NOTE: Asset allocation is the single largest contributor to total return.)</b></p> <p><u>Target #1:</u> Perform in-depth education on and analysis of at least one investment approach.</p> <p><u>Status #1:</u> Multiple investment opportunities were studied during the annual education meeting.</p>

### FY2010 Resources Allocated to Achieve Results

<b>FY2010 Component Budget: \$7,149,900</b>	<b>Personnel:</b>	
	Full time	0
	Part time	0
	<b>Total</b>	<b>0</b>

## Performance

### A: Result - Improve the risk adjusted return of funds under the stewardship of the ARMB by continually improving investment returns.

**Target #1:** Exceed 1-year, 3-year and 5-year target returns.

**Status #1:** FY2008 target returns were exceeded in 9 of the 12 return analyses.

#### One-year, Three-year and Five-year Return Data for Retirement Funds as of June 30, 2008

Fiscal Year	Retirement Fund	1-Year Actual	1-Year Target	3-Year Actual	3-Year Target	5-Year Actual / Target
FY 2008	PERS Total Plan	-2.74%	-3.93%	8.90%	7.31%	10.03% / 9.14%
FY 2008	TRS Total Plan	-2.74%	-3.93%	8.91%	7.31%	10.05% / 9.14%
FY 2008	Judicial Total Plan	-4.73%	-4.43%	7.88%	7.35%	9.33% / 9.35%
FY 2008	Military Total Plan	-1.55%	-0.99%	5.86%	4.93%	6.78% / 6.12%

Methodology: FY2008 one-year return data is for the period 7/1/2007 through 6/30/2008.

**Analysis of results and challenges:** A combination of investments that is expected to produce the highest investment return for a given amount of risk is known as "point on the efficient frontier." Each fiduciary for a fund reviews points on the efficient frontier and selects the combination of investments consistent with their appetite for risk and returns of the fund. This selection is known as the target return.

Target returns assume the earnings of passively managed indexes invested in the same proportions as the assets at the corresponding point on the efficient frontier. A fund will exceed the target rate of return if the amount of money invested matches the asset allocation or are overweighted to higher earning assets at that point on the efficient frontier and the investment managers earn more than their benchmark index. Conversely, returns will be less if the manager underperforms their benchmark or if assets were not allocated to overweight higher performing asset classes.

For FY2008, all but the Judicial Plan 1-year and 5-year and Military Plan 1-year returns beat the corresponding target returns.

### A1: Strategy - Recognize possible improvements to asset allocation decisions through evaluation of greater diversification by expanding the number of asset classes. (NOTE: Asset allocation is the single largest contributor to total return.)

**Target #1:** Perform in-depth education on and analysis of at least one investment approach.

**Status #1:** Multiple investment opportunities were studied during the annual education meeting.

**Analysis of results and challenges:** Diversification of investments through new asset classes was continued during FY2008. In addition, the asset classification hierarchy was reconfigured during FY2008 into 6 categories, rather than the previous 11 in order to improve performance analysis of the plans. The Board will continue to evaluate new asset classes at their annual educational workshop.

## Key Component Challenges

- Managing investment risk during times of market volatility;
- Increase risk-adjusted returns.

## Significant Changes in Results to be Delivered in FY2010

- Increased due diligence by staff and trustees to more thoroughly probe the risk exposure of existing

investments in order to be more aware of exact risk position.

### Major Component Accomplishments in 2008

- The Alaska Retirement Management Board added investment options for participants across all defined contribution plans: supplemental annuity plan, deferred compensation, and the defined contribution plan established in 2005 under SB141. Seven new investment options will be offered to plan participants in FY2009.
- In FY2008, the Alaska Retirement Management Board exceeded its PERS benchmark rate of return by 1.66% in a down market. Coupled with the previous year's return, the ARMB yield is in the top 10% of public pension funds for the last two years.

### Statutory and Regulatory Authority

AS 37.10.210-390      Alaska Retirement Management Board

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### Alaska Retirement Management Board Component Financial Summary

*All dollars shown in thousands*

	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	52.9	74.8	74.8
72000 Travel	216.5	124.9	124.9
73000 Services	4,813.5	6,619.3	6,942.7
74000 Commodities	154.6	7.5	7.5
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>5,237.5</b>	<b>6,826.5</b>	<b>7,149.9</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	221.3	382.4	382.5
1017 Benefits Systems Receipts	134.0	199.0	647.2
1029 Public Employees Retirement System Fund	3,294.8	4,026.8	4,020.2
1034 Teachers Retirement System Fund	1,551.6	1,971.5	1,966.2
1042 Judicial Retirement System	30.7	46.3	46.3
1045 National Guard & Naval Militia Retirement System	5.1	87.5	87.5
1142 Retiree Health Ins Fund/Major Medical	0.0	113.0	0.0
<b>Funding Totals</b>	<b>5,237.5</b>	<b>6,826.5</b>	<b>7,149.9</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2008 Actuals	FY2009 Management Plan	FY2010 Governor
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Benefits System Receipts	51390	134.0	199.0	647.2
Retiree Health Ins Fund/Major Medical	51428	0.0	113.0	0.0
<b>Restricted Total</b>		<b>134.0</b>	<b>312.0</b>	<b>647.2</b>
<b>Total Estimated Revenues</b>		<b>134.0</b>	<b>312.0</b>	<b>647.2</b>

**Summary of Component Budget Changes  
From FY2009 Management Plan to FY2010 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2009 Management Plan</b>	<b>382.4</b>	<b>0.0</b>	<b>6,444.1</b>	<b>6,826.5</b>
<b>Adjustments which will continue current level of service:</b>				
-Pension Fund Share of Salary Adjustment for Treasury Staff	0.1	0.0	73.8	73.9
<b>Proposed budget increases:</b>				
-Administration of Additional Investment Options for Participants	0.0	0.0	249.5	249.5
<b>FY2010 Governor</b>	<b>382.5</b>	<b>0.0</b>	<b>6,767.4</b>	<b>7,149.9</b>